Turkey: Agricultural Economy and Policy Report
February 2009

Political Situation: After winning parliamentary elections in July 2007, the Justice and Development Party (AKP) will be in power for another five years. The AKP solidified its power with 341 of the 550 seats in Parliament, the opposition Republican People's Party (CHP) kept only 97 seats. Prime Minister Recep Tayyip Erdogan kept his position, and the parliament elected Abdullah Gul, former Foreign Minister, as President in August 2007. European Union (EU) membership has been a primary goal of the AKP government, and significant social and economic reforms have taken place during their administration. The EU accession process began in December 2005 and has not proceeded smoothly; it will likely continue at least until 2015. There is concern in Turkey and in the EU about the future of the accession process. Although potentially a significant contribution to economic modernization, the cost and difficulty of implementing the agriculture section of the EU *Acquis* will be an enormous challenge. Continuing terrorism by the Kurdistan Workers Party (PKK), a Kurdish independence-seeking group in Southeast Turkey, continues to unsettle the country. Turkey has used military force in Northern Iraq in an effort to weaken the PKK threat.

Economic Situation: The Turkish economy has been stable for the last seven years since reforms were implemented after the 2001 economic crisis. Turkey's economy grew an average of 6 percent per year from 2002 through 2007--one of the highest sustained rates of growth in the world. Inflation and interest rates have fallen significantly and government debt has been reduced to more supportable levels, and business and consumer confidence have returned. At the same time, booming economic growth earlier in the decade has contributed to a growing current account deficit. Though Turkey's vulnerabilities have been greatly reduced, the economy could still face problems in the event of a sudden change in the investor sentiment. The high value of the Turkish Lira threatens export industries and increased dependence on foreign capital coupled with high unemployment (9.9 percent in 2006) and a rising income gap could lead to economic instability. Continued implementation of IMF dictated reforms, including tight fiscal policy, and securing independent Central Bank monetary policies are essential to sustain growth and stability. Turkey has taken steps to improve its investment climate through administrative streamlining, an end to foreign investment screening, and strengthened intellectual property legislation; however, many institutional impediments remain: a recent Constitutional Court ruling cancelled a law allowing sales of property to companies established by foreign investors or joint ventures involving foreign firms.

The agricultural sector continues to play a key role in Turkey's economy, employing 27 percent of the workforce in 2006 and generating most of the rural income, but accounting for only 10 percent of GDP in 2007. The agricultural sector, not including textiles, contributes about 5.8 percent of exports. Agriculture continues to decline relative to the industrial and service sectors, and is strongly in need of market-based reforms.

General Trade Situation: Turkey has bilateral investment and tax treaties with the United States, and has a Customs Union with the EU. Foreign direct investment (FDI) has soared from $1 billion in 2004 to nearly $21.9 in 2007, with a total of nearly 4,000 new companies with foreign capital in 2007, 135 of which are from the United States. In the last five years total exports have increased from $47 billion to just over $97 billion. The largest export-driven sector is textiles and clothing, which accounts for 8 percent of GDP. The global phase-out of textile quotas in 2005 hurt the Turkish textile sector, increasing competition both domestically and globally, but the damage was not as severe as some had predicted. Total imports in 2007 increased to $154 billion from $140 billion in 2006, mostly because of rising energy costs. In 2007 exports rose to $97 billion, a 12 percent increase from 2006, resulting in a $57 billion trade deficit.

In 2007, bilateral trade with the United States was about $11 billion: U.S. exports to Turkey of $6.5 billion slightly exceeded U.S. imports from Turkey of $4.6 billion.

Domestic Agricultural Situation: Agriculture remains a large and slow to modernize sector of Turkey's economy, accounting for almost 30 percent of the workforce and generating approximately 10 percent of GDP. While still critical to the rural economy, where it provides nearly all employment, the agricultural sector continues to decline relative to the industrial and service sectors. Agriculture accounted for approximately 3.5 percent of exports in 2007.

The two main challenges for Turkish agriculture in 2007 were a severe drought that left Turkey with an import need of two million tons of wheat and feedgrains just as global commodity prices reached unprecedented levels. These combined to increase already-high food costs. On the positive side, Turkey has been a model for the region in its preparedness and response to avian influenza outbreaks. There were some minor outbreaks of avian influenza in 2007 and in the first two months of 2008; however, substantial public education programs appear to have paid off: there have been no human cases and no signs of adverse effects on poultry and egg consumption as there were in 2006. Turkey has also made strides in its livestock policy, opening the market for imports of live cattle from the United States and currently working towards an agreement on live bull imports. The Ministry is encouraging imports of live cattle (minimum 100 head), demonstrating an understanding of the needs of the country for better quality animals. Turkey has a mixed record when it comes to liberalization of its agricultural sector. In 2006, Turkey adopted a new Agriculture Law to implement its "Agricultural Strategy Paper 2006- 2010". The Law puts emphasis on increasing productivity and ensuring food security but gives lower priority to food safety and consumer related matters. Until this year, it had defined support linked to production as a key instrument of agriculture policy, which made the competitiveness and modernization of the agricultural sector and rural areas a priority.

However, most probably as a result of the IMF and World Bank pressure on Turkey to decrease its crop-specific production support as part of an overall effort to reform and liberalize the agricultural sector, it began moving away from direct income support programs. The Minister of Agriculture announced that the direct income system will be eliminated and replaced by premium payments to producers sometime in 2008. The government also announced that the various specific support programs to livestock producers will be cancelled and replaced by one general program which will apply per head.

Government support programs, many of them a result of political forces unconnected to supply and demand, often shield producers from market signals, making policy tools ineffective. Turkey also provides export subsidies for a number of food and agricultural products, such as vegetables, honey and eggs. In addition to excessively high tariffs, Turkey curbs trade with non-tariff barriers including import licensing, import quotas and absorption schemes, seasonal bans on imports and the implementation of restrictive phytosanitary regulations. Some restrictions are well calculated, intentional efforts to protect domestic producers by limiting imports. Other restrictions seem to be accidental: the result of regulations enacted without sufficient review by industry and government officials and poor implementation.

Turkey is taking steps to harmonize its agricultural policies and trade regulations with the EU. Most changes made to regulations become effective immediately with little or no notification to trading partners. This often results in unnecessary disruptions in trade. Turkey has a poor track record on notifying new regulations to the WTO SPS and TBT bodies. It has shown improvement in the last year.

Agricultural Trade Situation: Total Turkish agricultural imports in 2007 reached $5.5 billion; agricultural exports were $5.6 billion. Despite significant tariff and non-tariff barriers, U.S. agricultural exports to Turkey reached a record $1.5 billion in 2007. Turkey was the tenth largest market for U.S. agricultural exports overall, and the second largest market for U.S. cotton exports after China. Cotton sales of $767 million provided more than one-half of the total U.S. export value. In addition to cotton, exports of soymeal, feed ingredients, other vegetable oils, animal fats, fruit and vegetable juices, tree nuts, and panel products (including plywood) all reached record highs in 2007. Of these, the most notable increases were in exports of cotton, which doubled, tree nuts, which also nearly doubled, and feed ingredients such as corn gluten feed, which more than tripled.

Notably, the market for live cattle, closed for the past four years, opened in mid-July; the first shipment was valued at $6 million. Although Turkey remains a major market for bulk and intermediate agricultural products from the United States, it has even more potential as a market for consumer products: it is expected that by 2020, 14 million households could be classified as middle class, up from just 5.9 million in 2000. This change will transform the Turkish food market and boost import demand, which should create new export opportunities for U.S. producers.

Changing demographics including more working women and a more urban population along with a growth in tourism also favor increases in demand for more quality and variety.

The GSM-102 export credit program is very popular with Turkish importers of U.S. agricultural products, especially for cotton. Turkey is one of the top users of the program, peaking at $455 million in FY 2005, mostly for imports of U.S. cotton, soybeans and vegetable oil. Although enthusiasm for the program is still extremely high, in the last three years delays in announcing program have decreased utilization. GSM remains a powerful trade enhancement tool. All of the $165 million allocated in credit guarantees were used up in the first week of the FY 2008 program announcement.

The Free Trade Zone at the Port of Mersin in Southeastern Turkey has become a significant transit point for shipments of U.S. poultry and other products to Azerbaijan and other countries. The total value of this trade is difficult to estimate except for poultry products, which cannot legally enter Turkey. U.S. exports of poultry products consigned to Turkey for re-export fell from $81 million in 2005 to $65 million in 2006.

Regulatory System: The Ministry of Agriculture's General Directorate for Protection and Control is responsible for the safety of imported and domestic products through inspection and quarantine services. Currently, one of its main focuses is the harmonization of Turkish legislation on veterinary, phytosanitary and food safety with EU standards. The government on occasion has changed import requirements without notifying the United States or other trading partners. These new laws are not always implemented or enforced immediately or consistently at every port, making it difficult for traders to comply.

FAS Cooperators: There are three FAS Cooperators with full time representatives in Turkey: the American Soybean Association, Cotton Council International, and the U.S. Rice Federation. In addition, the U.S. Dry Pea and Lentil Association, the U.S. Dry Bean Council, U.S. Wheat Associates, the U.S. Grains Council have representatives in neighboring countries that occasionally visit Turkey to conduct trade-servicing activities and to attend trade shows.

Livestock genetics groups also are increasingly active. The U.S. Poultry and Egg Export Council pays close attention to transshipments of U.S. poultry through Turkey to other countries in the region, and the American Hardwood Export Council has begun activities.

Most Significant Agricultural Issues in Turkey: Although Turkey has met all of its 1994 WTO obligations to lower tariffs, most are bound at very high levels, including those for grains, oilseeds, processed products, and wine and alcoholic beverages --which also face high excise taxes. Turkey also continues to use non-tariff barriers to restrict imports of many food and agricultural products, such as all meat and meat products, including poultry, and has de facto bans on the import of other products as it does not freely issue import licenses.

All grain, except for re-export processing, is imported through government authorized tender by the State Grain Board (TMO). Import licenses regulate all trade in food and agricultural products in Turkey, including grains and processed products. Authorities demand health certificates or certificates of free sale which are not routinely issued.

At the request of the United States, the WTO established a dispute settlement panel in July 2006 to address Turkey's import practices on rice. The case was brought after Turkey imposed a series of protectionist measures that had hurt U.S. exports, including limiting import permits and a domestic rice purchase requirement for importers. Although some of these restrictions have been discontinued, a new reference price scheme has been put in place. The panel made its final report in November 2007, agreeing with the United States that certain measures were WTO-inconsistent. Since then, both countries have been negotiating a schedule for coming into compliance with the decision.

Agriculture has been acknowledged as one of the biggest challenges for Turkey's accession to the EU. EU structural and development funds have begun to flow; policy planning on allocating these resources continues. There will be an adjustment period during which exporters can expect new regulatory hurdles.